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SOGEPET LIMITED

1968

ANNUAL REPORT

THE HUDSON BAY OIL SEARCH

The Hudson Bay region, an area of some 800,000 square miles, forms more than one-fifth of Canada. It is an inland sea and relatively accessible by two existing railroads with port terminals at Churchill, Manitoba, and Moosonee, Ontario.

If oil and/or gas are developed in the Hudson Bay region, it is probable that movement of such products would be overland to the south and east. Approximate straight-line distances from the main acreage block of the Sogepet-Aquitaine group are: to Winnipeg 575 miles; to Port Arthur 600 miles; to Toronto 1,000 miles; to Montreal 1,050 miles.

The oil exploration of Hudson Bay dates from August 8, 1962 when Franc R. Joubin and two associates filed on the first land and off-shore permits in that region. These permits have formed the nucleus of the present much larger Sogepet-Aquitaine group holdings. Over two years were to pass before other interests were to appear in the Bay region, and four years were to pass before the small privately financed Sogepet group would attract the participation of its present oil industry associates.

These time intervals were actively employed by Sogepet, in aerial and ground geophysical surveys and extensive geological reconnaissance surveys of the south, west and north borders of the Bay. Principally responsible for these early studies were Ronald D. Johnson, petroleum geologist and Samuel J. Nelson, paleontologist. Limited but very effective use of the Eskimo was made in the course of the northern geological surveys. All of these exploration activities were greatly assisted by the interest and important studies simultaneously conducted by several Federal government agencies, principally the Geological Survey of Canada.

The completion of the Sogepet-Aquit-Kaska #1 slim hole well, in December 1966, proved to be a rewarding effort. The results more than confirmed the theories that had encouraged the commencement of the project, four years earlier.

At time of writing, over 125 million acres have been filed on for gas and oil exploration by over 35 companies, and the region is now almost totally claimed for exploration. It is estimated that about $10 million has been spent since 1962 by companies and government agencies directly or indirectly oriented to oil exploration in the Hudson Bay region. It is estimated that an additional $10 million will be spent during 1969-71.

The summer of 1969 will witness the drilling of the first production scale off-shore well in Hudson Bay. It will be on acreage held by Aquitaine and Atlantic Richfield, situated to the north-east of and adjoining the main Aquitaine-Sogepet acreage block.

And thus the search for new national resources continues . . . our North is opened . . . and if the quest succeeds, our Nation is made stronger.

SOGEPET LIMITED

DIRECTORS	Douglas A. Berlis, Q.C. Air Marshal W. A. Curtis William F. Mitchell John J. Jodrey Dr. Franc. R. Joubin Joseph Sedgwick, Q.C.
OFFICERS	Dr. Franc R. Joubin, *President* Air Marshal W. A. Curtis, *Vice-President* Miss C. A. Hennig, *Secretary-Treasurer*
LEGAL COUNSEL	Manley, Grant, Armstrong & Camisso
TRANSFER AGENT	Guaranty Trust Company of Canada
AUDITORS	Laventhol Krekstein Horwath & Horwath
HEAD OFFICE	170 Bloor Street West, Suite 418, Toronto 5, Ontario, Canada

SOGEPET LIMITED

Directors' Report

TO THE SHAREHOLDERS OF SOGEPET LIMITED

The year under review, 1968, was a very active one for our Company. Our exploration activities, for both hydrocarbons and minerals, were confined to the Hudson Bay region.

A land seismic profile covering the Manitoba and Ontario coastal areas of our Permits was completed during the winter of 1967-8. A marine seismic profile across our near-offshore Permits, roughly parallel to and about 30 miles from the coast, was completed during the summer of 1968. A program of geologic re-evaluation of the Hudson Bay "around-the-rim" coastal areas, in which we participated, was completed during the summer of 1968. The co-ordinated evaluation of these several programs was encouraging, and steps were taken by the Group and individual partners to increase our oil permit holdings.

The total Permit area of the Sogepet-Aquitaine Group was increased from 6,478,937 acres to 10,253,901 acres, in which our Company has a 15% collective working interest. In addition, our Company has acquired a 20% equity in 5,067,402 acres of Permits with a newly formed group of Texas Gulf Sulphur Company (the Operator), Teck Corporation Limited and Canadian Homestead Oils Limited.

During 1968, the Aquitaine Company of Canada Ltd. (75% interest) and our Company (25% interest) placed two geological parties and one geophysical contractor in the field to prospect for minerals. Modest encouragement was obtained, sufficient to justify the acquisition of four mineral reserve areas in Northern Manitoba upon which a program of geochemistry, geophysics and diamond drilling will be started in 1969.

The above were the highlights of the fiscal year under review.

Inasmuch as project results in 1968 indicated that substantial expenditures would be made during the 1969-70 period, steps were taken early in 1969 to qualify our Company for public financing.

A group of three investment dealers entered into an underwriting agreement which has provided our treasury with $700,000. The same group holds one further option which, if exercised, will provide the treasury with an additional $300,000. This total sum is considered adequate for our portions of the 1969 and 1970 programs. Trading in our securities, on the unlisted market, commenced in late March, 1969, and the issue has been well received.

It is a pleasure to record our thanks to our Group colleagues and particularly to the Aquitaine Company of Canada Ltd. which serves as the Group Operator; also to R. D. Johnson, petroleum geologist, who has served as our Consultant from our pioneering start in Hudson Bay to the present.

On Behalf of the Board of Directors,

FRANC. R. JOUBIN, President.

April 18, 1969.

SOGEPET LIMITED

Auditors' Report

To the Shareholders of
Sogepet Limited.

We have examined the balance sheet of Sogepet Limited as at December 31, 1968 and the statements of deferred exploration and administrative expenditures, deficit, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1968 and its activities and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LAVENTHOL KREKSTEIN HORWATH & HORWATH,
Chartered Accountants.

January 18, 1969.

SOGEPET

(Incorporated under the law

Balance

ASSETS

	December 31, 1968	1967
CURRENT:		
Cash	$ 2,694	$ 13,782
Short-term bank deposits	—	200,000
Due from participant in joint ventures	2,559	—
Accrued interest	—	1,989
Miscellaneous receivables and advances	514	6,039
	5,767	221,810
Work deposits on petroleum and natural gas exploratory permits	—	25,871
CAPITAL ASSETS (Notes 1, 2 and 3):		
Interests in petroleum, natural gas and mineral acreage, at cost	19,793	18,416
Well drilling and related costs	150,071	143,496
Deferred exploration and administrative expenditures	535,162	383,237
	705,026	545,149
Less net proceeds from sale of interest in petroleum and natural gas exploratory permits	317,500	317,500
	387,526	227,649
OTHER:		
Organization expenses	12,740	12,740
	$ 406,033	$ 488,070

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Sheet

LIABILITIES

	December 31, 1968	1967
CURRENT:		
Loan payable to shareholder	$ —	$ 16,861
Accounts payable	8,832	86,508
Accrued interest on loan	—	506
Advances from participants	—	1,010
	8,832	104,885
CONTINGENT LIABILITY (Note 4)		

SHAREHOLDERS' EQUITY

CAPITAL (Notes 5 and 6):		
Authorized:		
2,000,000 Common shares without par value		
Issued and fully paid:		
623,553 Shares (1967 — 606,753 shares)	414,228	397,428
DEFICIT	17,027	14,243
	397,201	383,185

Approved on behalf of the Board of Directors:

FRANC. R. JOUBIN, (Director).

D. A. BERLIS, (Director).

	$ 406,033	$ 488,070

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SOGEPET LIMITED

DEFERRED EXPLORATION AND ADMINISTRATIVE EXPENDITURES

	Year Ended December 31, 1968	1967
EXPLORATION EXPENDITURES:		
Petroleum and natural gas acreage:		
Geophysical survey and mosaic terrain analysis	$ 787,137	$ 394,555
Less participants' share	668,441	331,887
	118,696	62,668
Engineering and geological services	5,675	3,875
Travel and accommodation	356	1,437
Telephone and telegraph	445	313
Licenses and fees	102	—
Miscellaneous	—	220
Loss on sale of fixed asset	—	264
	125,274	68,777
MINERAL ACREAGE:		
Regional investigation	12,511	8,812
Field salaries	16,250	—
Airborne geophysical survey	9,125	—
Travel	13,832	—
Camp supplies	5,904	—
Miscellaneous services and operator's overhead	14,820	—
	72,442	8,812
Less participants' share	55,583	7,490
	16,859	1,322
Total exploration expenditures	142,133	70,099
Add administrative expenditures, per schedule	9,792	6,902
Total expenditures for the year	151,925	77,001
Balance deferred at beginning of year	383,237	306,236
Balance deferred at end of year	$ 535,162	$ 383,237

SOGEPET LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year Ended December 31, 1968	1967
FUNDS WERE DERIVED FROM:		
Sale of capital stock	$ 16,800	$ 8,625
Deduct consideration other than cash	—	8,625
	16,800	—
Release of work deposits	25,871	—
Sale of interest in oil and natural gas exploratory permits	—	225,000
Miscellaneous	—	200
	42,671	225,200
FUNDS WERE APPLIED TO:		
Exploration and administrative expenditures, per statement	151,925	77,001
Deduct expenditures not affecting funds, consisting of loss on sale of fixed assets and services paid for by issue of capital stock	—	1,389
	151,925	75,612
Acquisition of interest in oil and natural gas exploratory permits	1,377	3,225
Work deposits on oil and natural gas exploratory permits	—	11,162
Well drilling and related costs	6,575	77,815
Miscellaneous	2,784	1,313
	162,661	169,127
Increase (decrease) in working capital	(119,990)	56,073
Working capital at beginning of period	116,925	60,852
Working capital (deficiency) at end of year	$ (3,065)	$ 116,925

SOGEPET LIMITED

STATEMENT OF DEFICIT

	Year Ended December 31, 1968	1967
Balance at beginning of year	$ 14,243	$ 12,930
Additions during the year:		
Loss on sale of bonds	—	1,313
Portion of work deposits refunded, relinquished to other participants	2,784	—
	2,784	1,313
Balance at end of year	$ 17,027	$ 14,243

SCHEDULE OF ADMINISTRATIVE EXPENDITURES

	Year Ended December 31, 1968	1967
Office rent and administrative services	$ 5,400	$ 6,000
Directors' fees	350	700
Legal and audit	3,732	2,186
Annual meeting expenses	431	261
Public relations and shareholders' information	1,623	—
Telephone and telegraph	435	797
Government fees and taxes	277	444
Travel and accommodation	291	212
Miscellaneous	167	306
Share issue expenses	222	325
Interest on loans	759	1,317
	13,687	12,548
Less sundry income	3,895	5,646
	$ 9,792	$ 6,902

SOGEPET LIMITED

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 1968

1. PETROLEUM AND NATURAL GAS ACREAGE:

By a series of agreements entered into at various dates, Sogepet sold a total of 85% of its original interest in petroleum and natural gas acreage in the Hudson Bay Area for $317,500 cash. As further consideration, one of the participants has expended $200,000 on well drilling. Additional permits have been acquired, each participant contributing to the cost in the ratio of his interest.

The original farmout agreement having expired, the participants entered into an operating agreement on June 18, 1968, setting forth the terms under which all future joint operations on the lands shall be conducted. The participants in this agreement share costs and profits in the ratio of their respective interest, Sogepet's interest being 15%. The agreement provides for the dilution of interest of any participant who elects not to continue with the program.

To December 31, 1968, the joint venture has spent $605,157 on well drilling and $1,181,692 on geophysical surveys and mosaic terrain analysis, of which Sogepet's share is $150,071 and $181,364 respectively.

2. MINERAL ACREAGE:

In 1967, the participants in the oil exploration venture conducted a general reconnaissance and investigation of the Manitoba lands mentioned in Note 1 for their mineral potential. After its completion in 1968, only two of the parties elected to continue the mineral search with additional ground and aerial geophysical studies, as a result of which mineral reservations on 414,720 acres in Northern Manitoba were obtained. Sogepet has a 25% interest in these mineral reservations.

3. OPTION TO PURCHASE INTEREST IN PETROLEUM AND NATURAL GAS ACREAGE:

By an agreement dated January 21, 1969 the company acquired an option to purchase an undivided 20% interest in 5,067,402 acres in North Hudson Bay area for $70,546.72 exercisable on or before April 30, 1969.

4. CONTINGENT LIABILITY:

Aquitaine Company of Canada Ltd., a participant, has satisfied certain work deposit requirements by depositing with the government agencies involved its own promissory notes totalling $376,294. These notes will be returned to Aquitaine in amounts equal to the allowable expenditures made within various stipulated time limits.

Should Aquitaine have to make any payment on these notes due to insufficient work, Sogepet would be required to contribute its share up to a maximum of $66,812.

5. CAPITAL:

The following is an analysis of the company's issued capital stock as at December 31, 1968:

	Shares	Amount
For cash	404,553	$366,603.00
For services	69,000	40,125.00
In consideration for subscribing for preferred shares	150,000	7,500.00
	623,553	$414,228.00

During the year, the company issued 16,800 shares of its capital stock at $1 per share in settlement of a shareholder's cash advance.

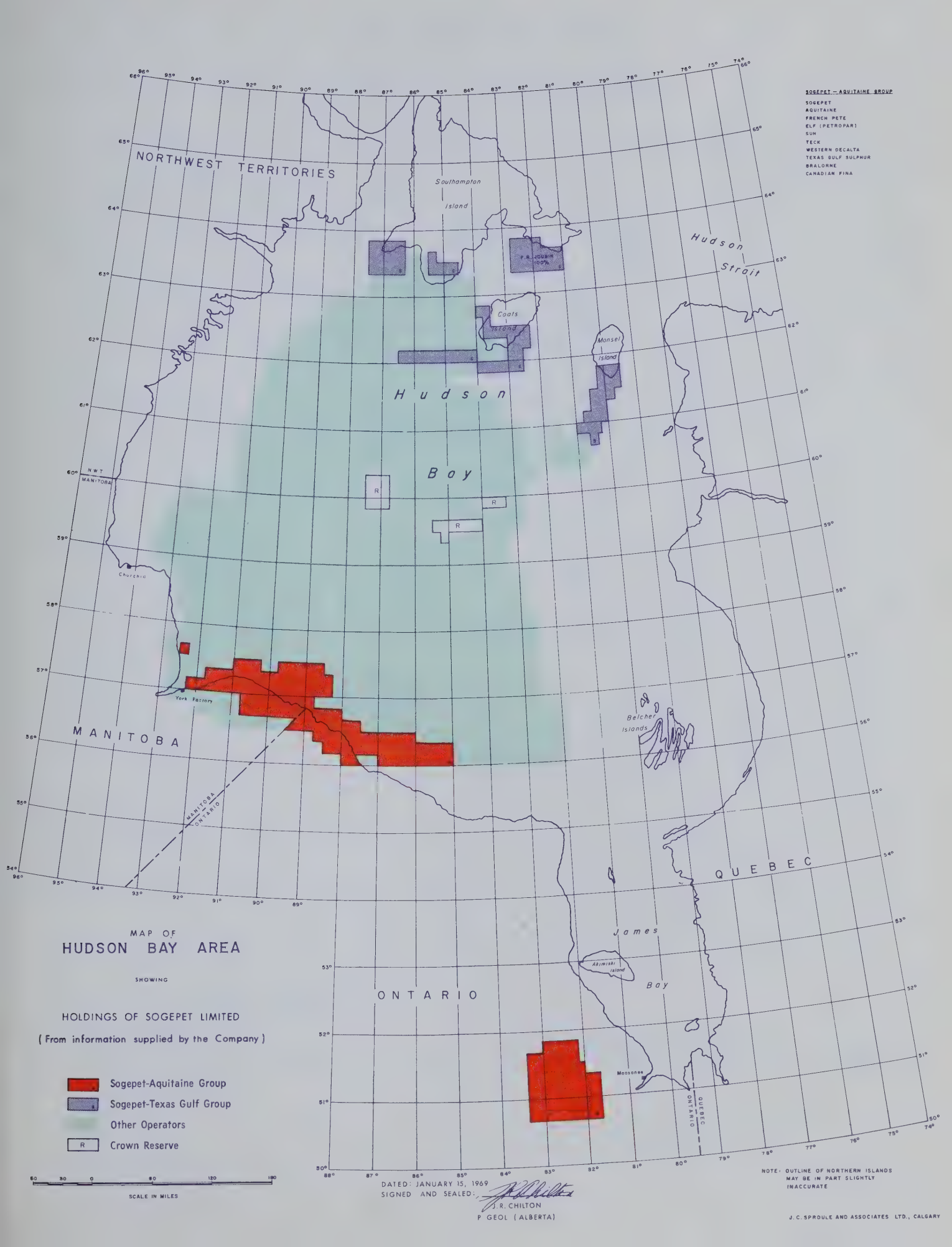
Certain directors have options to purchase 30,000 shares of capital stock at $1 per share exercisable on or before June 24, 1969.

6. UNDERWRITING AGREEMENT:

Underwriters have agreed to purchase 400,000 shares of the company's capital stock at $1 per share payable on the seventh business day following the date the Ontario Securities Commission accepts for filing a prospectus of the company (the "effective date").

In consideration of the firm purchase, the company granted the underwriters options to purchase all or any part of an additional 200,000 shares at $1.50 per share and 150,000 shares at $2.00 per share exercisable either within six and twelve months of the effective date respectively, with provision for earlier exercise under certain conditions.

In consideration of arranging the above financing, the company granted Mr. Samuel Gordon Sharpe an option to purchase 15,000 shares of its capital stock at $1 per share exercisable within two years of the effective date of the underwriting agreement.


NORTHWEST TERRITORIES
Southampton Island
Hudson Strait
P.R. JOUBIN 100%
Coats Island
Monsel Island
Hudson Bay
NWT
MANITOBA
Churchill
York Factory
MANITOBA
Belcher Islands
MANITOBA ONTARIO
QUEBEC
James Bay
Akimiski Island
ONTARIO
Moosonee
QUEBEC ONTARIO
SOGEPET — AQUITAINE GROUP
SOGEPET
AQUITAINE
FRENCH PETE
ELF (PETROPAR)
SUN
TECK
WESTERN DECALTA
TEXAS GULF SULPHUR
BRALORNE
CANADIAN FINA
MAP OF
HUDSON BAY AREA
SHOWING
HOLDINGS OF SOGEPET LIMITED
(From information supplied by the Company)
Sogepet-Aquitaine Group
Sogepet-Texas Gulf Group
Other Operators
R Crown Reserve
SCALE IN MILES
DATED: JANUARY 15, 1969
SIGNED AND SEALED:
J.R. CHILTON
P GEOL (ALBERTA)
NOTE: OUTLINE OF NORTHERN ISLANDS MAY BE IN PART SLIGHTLY INACCURATE
J.C. SPROULE AND ASSOCIATES LTD., CALGARY

HUDSON BAY AREA

OIL PERMIT HOLDINGS

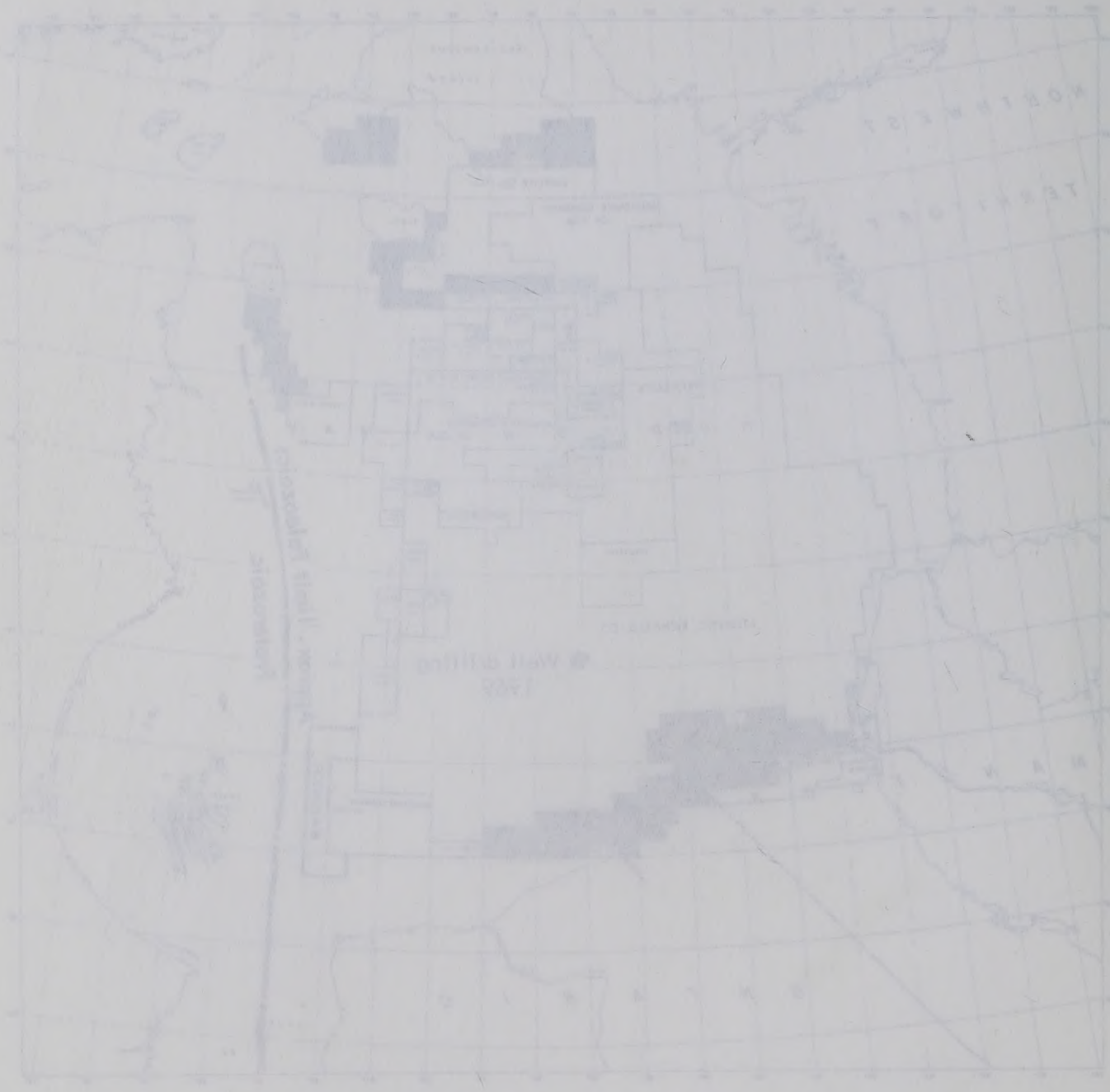
Scale: 1 inch to 115 miles

SOGEPET - AQUITAINE GROUP

Sogepet Limited
Aquitaine Company of Canada
Camerina Oil & Gas
Elf (Petro Par)
Sun Oil
Teck Corp.
Western Decalta
Bralorne Pet.
Texas Gulf Sulphur
Canadian Fina

LAND HOLDINGS OF SOGEPET - AQUITAINE GROUP SHOWN THUS: ■

An additional 3,204,000 acres, held in Ontario, are not shown on map



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